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看漢科技集團有限公司

KanHan Technologies Group Limited

(Incorporated in the Cayman Islands with limited liability)

First Quarterly Report

2004

Innovations to Global
Languages Communication

e-putonghua

learning platform

Info-Tone IVR

payment service

Dial to the

internet technology

Bridging the Digital Divide

DIY ring-tone

CHARACTERISTIC OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

The Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited (“the Stock Exchange”) has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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This report, for which the directors of KanHan Technologies Group Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to KanHan Technologies Group Limited. The directors, having made all reasonable enquiries, confirmed that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL RESULTS (UNAUDITED)

The board (the "Board") of directors (the "Directors") of KanHan Technologies Group Limited (the "Company") would like to report the unaudited consolidated results of the Company and its subsidiaries (together, "the Group") for the three months period ended 31st March 2004, together with the comparative figures for the corresponding period in 2003 as follows:-

| | NOTES | Three months ended 31st March | |
|-----------------------------------|-------|----------------------------------|------------------|
| | | 2004 HK\$'000 | 2003 HK\$'000 |
| Turnover | 2 | 2,131 | 640 |
| Direct costs | | (454) | (252) |
| Gross profit | | 1,677 | 388 |
| Other operating income | | - | 40 |
| Administrative expenses | | (1,354) | (1,262) |
| Selling and distribution expenses | | (313) | (13) |
| Profit (loss) from operations | | 10 | (847) |
| Finance costs | | - | (40) |
| Profit (loss) for the period | | 10 | (887) |
| Earnings (loss) per share - Basic | 5 | 0.002cents | (0.18cents) |

Notes:

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands on 10th October, 2002 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The shares of the Company were listed on the GEM of the Stock Exchange on 25th February, 2003.

These unaudited consolidated quarterly accounts should be read in conjunction with the 2003 annual financial statements. The accounting policies and methods of computation used in the preparation of these unaudited consolidated quarterly accounts are consistent with those used in the 2003 annual financial statements. The unaudited consolidated quarterly accounts has been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, the accounting principles generally accepted in Hong Kong, the disclosure requirements of Hong Kong Companies Ordinance and the GEM Listing Rules.

The Company is an investment holding company. The principal activity of its principal subsidiaries is provision of communications software platforms.

The directors are satisfied that provided the agreement with the discretionary fund as set out in the capital structure is completed and the equity financing facility can be obtained, the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

2. TURNOVER

Turnover comprises revenue from the following activities in the Group's server-based language technology business:

| | Three month's ended | |
|---|---------------------|----------|
| | 31st March | |
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Sales of licensed software | 1,946 | 602 |
| Software maintenance | 141 | 32 |
| Software rental and subscription income | 24 | 6 |
| | 2,111 | 640 |
| Putonghua learning platform | 20 | – |
| | 2,131 | 640 |

The Group's operations are located in Hong Kong and the People's Republic of China (the "PRC"). The Group reports its primary segment information by geographical location of its customers who are principally located in Hong Kong, and the PRC other than Hong Kong. Segment information about these geographical markets is presented below:

| | Three month's ended | |
|-------------------------------|---------------------|----------|
| | 31st March | |
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Hong Kong | 2,126 | 636 |
| The PRC, other than Hong Kong | 5 | 4 |
| | 2,131 | 640 |

3. TAXATION

No provision for Hong Kong profits tax has been made for the three months period ended 31st March, 2004 since the estimated assessable profit was wholly absorbed by tax losses brought forward (2003: Nil).

4. DIVIDEND

No dividend has been paid or declared by the Company or any of its subsidiaries for the three months period ended 31st March 2004 and 2003.

5. EARNINGS (LOSS) PER SHARE

The computation of the Group's basic earnings per share for the three months period ended 31st March 2004 is based on the Group's profit attributable to shareholders of approximately HK\$10,000 (2003: a loss of HK\$887,000) and on the weighted average number of shares issued during the quarter of 486,432,000 (2003: 486,432,000).

No dilutive loss per share was presented as there were no dilutive potential ordinary shares outstanding.

6. RESERVES

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium and accumulated profit of the Company are available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

| | Share Premium | Special reserve | Accumulated losses | Total |
|--|------------------|--------------------|-----------------------|-------------|
| 2003 | | | | |
| At 1st January 2003 | 9,297,830 | – | (7,037,144) | 2,260,686 |
| Loss for the 3 months ended 31st March 2003 | – | – | (887,478) | (887,478) |
| Arising from Group reorganization | (9,297,830) | 10,083,775 | – | 785,945 |
| Issue of shares by way of capitalization | (4,084,775) | – | – | (4,084,775) |
| Issues of shares upon conversion of convertible notes | 1,739,856 | – | – | 1,739,856 |
| Issue of shares under the placing | 19,200,000 | – | – | 19,200,000 |
| Share issue expenses | (5,018,723) | – | – | (5,018,723) |
| At 31st March 2003 | 11,836,358 | 10,083,775 | (7,924,622) | 13,995,511 |
| 2004 | | | | |
| At 1st January 2004 | 11,836,358 | 10,083,775 | (23,744,639) | (1,824,506) |
| Profit for the 3 months ended 31st March 2004 | – | – | 10,355 | 10,355 |
| At 31st March, 2004 | 11,836,358 | 10,083,775 | (23,734,284) | (1,814,151) |

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

Revenue for the first quarter amounted to HK\$2,131,000 (2003: HK\$640,000) representing about 233% increase as compared to that of previous period in 2003. The net profit for the period amounted to approximately HK\$10,000 (2003: net loss of approximately HK\$887,000).

Business Review

The Group began 2004 by winning a few strategic projects in the areas of simplified and traditional Chinese translation ("HanWeb") and web-to-speech ("HanPhone") applications. The Group won and delivered a contract from the Hong Kong SAR Government to build the world's first voice enabled government website channel, <http://www.soundportal.gov.hk>. This service is powered by the HanPhone technology, allowing Hong Kong citizens calling into the websites by using telephone or mobile phone and listening to text contents in Cantonese, Putonghua and English.

This project also witnesses the robustness of HanPhone technologies in serving large scale commercial applications in the Interactive Voice Response System ("IVRS") market, an area which KanHan will focus this year. Another HanPhone success story came from winning the lucky draw contract, serving OctopusCards. This lucky draw phone service is meant to serve OctopusCards customers, which means that the system is targeted to serve over 7 million callers if necessary.

During this quarter, Hong Kong Exchange & Clearing Limited and Kowloon Motor Bus have launched their simplified Chinese websites by using the Group's HanWEB technologies. The Group was also contracted by Department of Health to reproduce a new website under the name of Centre for Health Protection. This website will be initially launched in the second quarter of 2004 and target for full completion before the end of July. This website will be equipped with HanWeb functionality, also paving the way for HanPhone application if the Department so decided.

On the non-traditional business, the Group's DIY Ring-tone service was launched in China by two leading Chinese mobile messaging service providers - 21CN.com and Tencent.com (operated under the name QQ). This is China's first mobile phone service empowering users to create their own voice, music and eventually message enabled service utilizing ring-tone download channel and format. More promotion work will be done this year.

The online Putonghua (PTH) Learning Platform, using the text-to-speech technology was launched in February 2004. This service is being supported by the payment gateway and promotion of the ESD Services Limited of Hutchison. The Hong Kong Science & Technology Park became our first corporate customer using this PTH service. The Group is actively negotiating with a number of large training and learning organizations to promote the e-Learning platform and the corporate training initiatives.

Research and Development ("R&D")

The Group continues its R&D focus in the integration of the speech technologies in the areas of Internet, 2.5G and 3G platform as well as the computer-telephony integration ("CTI"). The Group also works on combining SMS, voice and IVR into new service provisioning to mobile phone users and is target to launch the new services towards end of 2004 in the China market. Moreover, development work is being undertaken to facilitate system integration using HanPhone technology on CTI.

PRC Opportunities

The KanHan Technologies (China) Limited, a wholly-owned subsidiary of the Group is in operation in March 2004. The office is located in the Guangzhou Huanghuagang Science & Technology Park office premises and is benefiting from a rent-free and tax concession scheme.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Financial resources and Capital Structure

During the three months ended 31st March 2004, the Group's operation was mainly financed by the net proceeds of the placing of shares in February 2003 and the internal financial resources of the Group.

During the quarter ended 31st March, 2004, the Group did not make any material acquisitions and disposal of subsidiaries and affiliated companies and investment.

As at 31st March, 2004, (i) the Group had no significant exposure to fluctuation in exchange rates and any related hedges; (ii) the Group had no banking facilities; and (iii) the group had no significant investment held. It is expected that the Group may raise bank borrowings should the need arise.

As announced on 12th December, 2003, the Company signed an agreement (subject to completion) with a discretionary fund in that the fund would provide a financing facility to the Company by investing, at the sole discretion of the Company, up to HK\$100 million in new ordinary shares to be issued by the Company to the fund over three years from the date of completion. Under the agreement, following the issue of a drawdown notice by the Company, the fund will purchase the shares at a price equivalent to 90% of the average closing price of listed shares in the Company during the 15 consecutive trading days immediately prior to the date of drawdown. The agreement also provides that the fund will be granted warrants to subscribe for shares of the Company equivalent to 25% of the number of shares issued to the fund. The warrant will have a term of three years and an exercise price equivalent to the market price of the Company's shares on the date of pricing of the shares. At the date of this report, the Company is still in the process of negotiations of the terms of the equity financing facility with the discretionary fund.

The Board is of the opinion that the Group has sufficient working capital for its present requirement, and are satisfied that provided the agreement with the discretionary fund is completed and the equity financing facility can be obtained, the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future.

RULE 17.15 TO 17.21 OF THE GEM LISTING RULES

The Directors have confirmed that the Group was not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

CONTINGENT LIABILITIES

As at 31st March 2004, the group had no material contingent liabilities.

EMPLOYEE INFORMATION

As at 31st March 2004, the Group had 17 full-time employees. All of the Group companies are equal opportunity employers, with the selection and promotion of individuals being based on suitability for the position offered. The salary and benefit levels of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis with the general framework of the Group's salary and bonus system which is reviewed annually. Selected benefit programmes including medical coverage and provident funds were also provided. In addition, training and development course were offered throughout the Group to upgrade employee skills and knowledge.

The Group also adopted employee share option scheme to provide the eligible employees a performance incentives for continuous and improved service with the Group and to enhance their contributions to increase profits by encouraging capital accumulation and share ownership.

DIRECTORS' INTERESTS IN SHARES OF THE COMPANY

As at 31st March, 2004, the interests of the directors of the Company and their associates in the shares and share options of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies, or which are required, pursuant to

Rules 5.40 to 5.59 of the Rules Governing the Listing of Securities in the GEM of the Stock Exchange (“GEM Listing Rules”), to be notified to the Company and the Stock Exchange, were as follows:

Long positions

Ordinary shares of HK\$0.01 each of the Company

| Name | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|---------------------------|----------------------------------|---------------------------------------|---|
| Mr. Mo Wai Ming, Lawrence | Beneficial owner | 180,008,000 | 37.01% |
| Ms. Wai Lai Yung | Beneficial owner | 2,512,000 | 0.52% |
| | Held by controlled corporations* | 84,072,000 | 17.28% |
| Mr. Lee Chi Ming | Beneficial owner | 1,432,000 | 0.29% |
| Mr. Yuen Ka Lok, Ernest | Beneficial owner | 1,432,000 | 0.29% |

* Ms. Wai Lai Yung beneficially owns 50% issued capital of Metrolink Holdings Limited (“Metrolink”), 45.45% issued capital of ZMGI Corporation (“ZMGI”) and 100% issued capital of Golden Nugget Resources Limited (“Golden Nugget”) which held 3,616,000, 40,432,000 and 40,024,000 shares in the Company respectively.

Save as disclosed above, as of 31st March 2004, none of the Directors and chief executive or their associates had any interests in any securities in the Company or its associated corporations. None of the Directors, nor their spouses or children under 18 years of age were granted or had exercised any rights to subscribe for the securities of the Company.

SHARE OPTIONS

As at 31st March 2004, no share option has been granted by the Company under the share option scheme.

DIRECTORS' INTERESTS IN CONTRACTS

In the three months period ended 31st March 2004, the Group has a tenancy agreement with a related company in which Mr. Mo Wai Ming, Lawrence is one of the directors. The rental expenses paid during the period to the related company amounted to HK\$120,000. The Group paid consultancy fee, a total of HK\$110,000 during the three month's period ended 31st March 2004, to a related company in which Ms. Wai Lai Yung is the director. The Company paid legal and secretarial fee, a total of HK\$44,000 during the three month's period ended 31st March 2004, to a law firm in which Mr Yuen Ka Lok, Ernest is a partner.

Save as disclosed above:

- (i) no contracts of significance subsisted at the end of the period or at any time during the period to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly; and
- (ii) there were no transactions which are required to be disclosed as connected transactions in accordance with the requirements of GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company.

| Name | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|--|--|---------------------------------------|---|
| Alexandra Global Investment Fund I, Ltd. | Beneficial owner | 75,010,000 | 15.42% |
| Alexandra Investment Manager, LLC | Beneficial owner | 75,010,000 | 15.42% |
| Mr. Lai Kui Shing, Andy | Held by controlled corporations (<i>note i</i>) | 44,048,000 | 9.05% |
| Metrolink | Beneficial owner | 3,616,000 | 0.74% |
| | Held by controlled corporations (<i>note ii</i>) | 40,432,000 | 8.31% |
| ZMGI Corporation | Beneficial owner | 40,432,000 | 8.31% |
| Golden Nugget | Beneficial owner | 40,024,000 | 8.23% |

Notes :

- (i) Mr. Lai Kui Shing, Andy beneficially owns 50% issued capital of Metrolink and beneficially owns 44.25% issued capital of ZMGI Corporation.
- (ii) Metrolink beneficially owns 88.5% issued capital of ZMGI Corporation.

SPONSOR'S INTERESTS

Pursuant to the agreement dated 13th February 2003 entered into between the Company and South China Capital Limited ("South China"), South China acts as the Company's continuing sponsor for a period commencing from 25th February 2003 to 31st December, 2005 and South China received, and will receive, fees for acting as the Company's continuing sponsor.

Neither the sponsor of the Company, South China, nor its directors, employees or associates (as referred to Note 3 of Rule 6.35 of the GEM Listing Rules) had any interest in any class of securities of the Company or any other companies in the Group (including options or rights to subscribe for such securities) as at 31st March 2004.

COMPETING INTERESTS

The directors believe that none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competes or may compete with the business of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Share Options" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Other than in connection with the Company's initial public offering on the GEM, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of its shares on GEM on 25th February 2003.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

AUDIT COMMITTEE

The Company established an audit committee on 24th January 2003 with written terms of reference in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The audit committee comprises Mr. Ho Siu Kau and Mr. Lai Chau Ming, who are the independent non-executive directors of the Company.

The Group's unaudited results for the three months ended 31st March 2004 have been reviewed by the audit committee, which was of the opinion that such statements complied with the applicable accounting standards, the Stock exchange and other legal requirements, and that adequate disclosure has been made.

On behalf of the Board

Mo Wai Ming, Lawrence

Chairman and Chief Executive Officer

Hong Kong, 26th April 2004